

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE TENNESSEEMETHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - NURSING FACILITIES

I. Nursing Facilities Providing Level II Care

- A. Reimbursement Principles - Effective January 1, 1978, reimbursement for nursing facilities providing level II care shall be on a reasonable cost-related basis. Participation in the program will be limited to those providers of service who agree by contract to accept as payment in full the amounts paid in accordance with the cost rates determined by the methods described herein. Cost rates shall be determined retrospectively on a facility by facility basis. Such rates shall consist of the level II portion of allowable costs, as limited by this plan. Effective October 1, 1996 and later the per diem rate shall be considered final rates that are payment in full without retrospective cost settlements.
1. Expenses related to disallowed capital expenditures, such as depreciation, interest on borrowed funds, the return on equity capital in the case of proprietary providers, and repairs are not allowable costs. Disallowed capital expenditures are those that have not been approved by the Tennessee Health Facilities Commission or its successor agency in accordance with State law.
 2. On a new lease negotiated after December 31, 1977, and renewal of such lease, the lesser of rent on real property and equipment or the amount of the lessor's depreciation, interest, other allowable costs, and return on lessor's equity capital, in accordance with Part 1 of this section, will be considered, on an item by item basis, as an allowable cost. Renewals of a lease negotiated before January 1, 1978, at the same rental amount or at an amount fixed or determinable according to conditions provided for in the original lease will not be considered as a new lease according to this provision. This provision does not apply to the rental of equipment for periods of less than one year.

D2188174

TN 96-7
Supersedes
TN 88-14Approval Date NOV 03 1997Effective Date 10/1/96

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE TENNESSEE

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - NURSING FACILITIES

3. A reasonable allowance of compensation for services of owners and their relatives is an allowable cost, provided the services are actually performed in a necessary function. Compensation as reported in the cost report will be reviewed and adjusted where necessary. Medicare compensation guidelines and procedures will be used where available. Otherwise, guidelines used for level I NF care will be employed.
4. Bad debts, charity, and courtesy allowances shall not be included in allowable costs.
5. Costs applicable to services, facilities, and supplies furnished to a provider by organizations related to the provider by common ownership or control shall not exceed the lower of the cost to the related organizations or the price of comparable services, facilities, or supplies purchased elsewhere. Providers shall be required to identify related organizations and associated costs in the cost report.
6. An incentive payment will be included in the reimbursable rate for providers who sufficiently contain costs as provided herein and maintain an average occupancy rate of 80% or greater. Certain expenses are fixed and not controllable on a day-to-day basis. These expenses include allowable rent, property taxes and insurance, depreciation, and interest. Total costs are determined for each provider and converted to a per patient day basis. Fixed costs are also determined for each provider and converted to a per patient day basis. Variable costs are determined by subtracting the fixed costs from the total costs. All providers of level II care whose variable costs are less than the maximum reimbursement rate shall be eligible to receive a fifty percent (50%) cost containment incentive for every dollar they are below the maximum reimbursement rate, limited to three dollars (\$3) per patient day and by the maximum reimbursement rate.
7. OBRA 1987 pass through cost items allowed will be paid over and above the per diem in the fiscal year July 1, 1990 through June 30, 1991 and in the fiscal year July 1, 1991 through June 30, 1992.
8. The annual nursing home tax, passed through as an allowable cost item for nursing facilities for the periods of July 1, 1992 through June 30, 1993; July 1, 1993 through June 30, 1994; July 1, 1994 through June 30, 1995; July 1, 1995 through June 30, 1996; July 1, 1996 through June 30, 1997; July 1, 1997 through June 30, 1998 and July 1, 1998 through June 30, 1999 is being extended for the period of July 1, 1999 through June 30, 2000 and July 1, 2000 through June 30, 2001 and will be excluded for purposes of computing the inflation allowance and cost containment incentive, and will not be subject to the maximum per diem rate.

D1035173

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
STATE TENNESSEE

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - SKILLED NURSING AND INTERMEDIATE CARE FACILITIES

- B. Allowable Costs - Allowable costs shall include all items of expense which providers must incur in order to:
1. Meet the definition of a skilled nursing facility set forth in Section 1861(J) of the Social Security Act and in Section 249.10 (b)(4) of Part 250, Chapter II, Title 45 of the Code of Federal Regulations and Title 42 CFR 440.40 of the Federal Regulations.*
 2. Satisfy the requirements of Section 1902(a)(28) of the Social Security Act.
 3. Comply with the standards prescribed by the United States Secretary of the Department of Health and Human Services, as set forth in Federal Regulations.
 4. Comply with any other requirements for licensing under the State Department of Health and Environment, the State agency responsible for establishing and maintaining health standards.
 5. Comply with any other requirements for licensing under State law which are necessary for providing skilled nursing services.
 6. In addition, allowable costs shall include the costs of routine services as defined by the State Department of Health and Environment, which as a minimum, shall include those items listed in the Federal Regulations.

*Added by Regional Office per authorization of State Official.

90-19

N/A

APPROVED 10/30/90
EFFECTIVE 7/1/90

AT 90-19
Effective 7-1-90

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE TENNESSEE

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - NURSING FACILITIES

- C. Cost Reporting Requirement - Nursing facilities providing level II care shall be required to follow Medicare cost reporting requirements utilizing Medicare cost reporting forms except where otherwise stated in this plan. These cost reporting forms must be submitted no later than five months after the close of the provider's fiscal year. In the event that the provider does not file the required cost report and other information by the first working day after the due date, the institution shall be subject to a penalty of ten dollars (\$10.00) a day in accordance with state law.
- D. Records Retention - Each provider of level II nursing facility services is required to maintain adequate financial and statistical records which are accurate and in sufficient detail to substantiate the cost data reported. These records must be retained for a period of not less than five years from the date of the submission of the cost report, and the provider is required to make such records available upon demand to representatives of the State Department of Health or the United States Department of Health and Human Services. All cost reports shall be retained by the state Comptroller of the Treasury for a period of not less than five years from the date of submission of the cost report.
- E. Rates of Payment
1. Effective August 16, 1980, on July 1st of each succeeding year, or at such other times as it is deemed desirable, the Commissioner of the Department of Health, shall establish a program-wide maximum per diem payment level for Medicaid/TennCare facilities providing level II care. For facilities with per diem rates below this maximum, a retrospective cost settlement will be made for this period. Effective for the period July 1, 1996 through September 30, 1996, the level II program-wide maximum is frozen at the rate in effect June 30, 1996. Effective October 1, 1996 and later, per diem rates will no longer be interim rates but shall be considered final rates that are payment in full without a retrospective cost settlement. Effective July 1, 1997 through October 31, 1997, nursing facility rates are frozen at the rate in effect June 30, 1997. Effective November 1, 1997, new reimbursement rates will be set for the duration of the State's fiscal year for Medicaid/TennCare nursing facilities providing level II care. The expected per diem cost for each provider shall be the most recent per diem calculated adjusted to reflect changes for inflation, as described in Section II., Part A, Item 12 of this Plan. This level shall be the 50th percentile (effective July 1, 1990, 65th percentile of facilities or beds whichever is less) rounded to the nearest one cent, of the expected per diem cost of the providers who have had at least one cost report settlement under the program when these providers are ranked from highest to lowest expected per diem cost. Effective October 1, 1996 capital-related costs are not subject to indexing. Effective August 16, 1980, the maximum per diem payment level for level II nursing facility services shall be the 50th percentile (effective July 1, 1990 the 65th percentile of facilities or beds, whichever is less) rounded to the nearest one cent of the adjusted, expected per diem costs, or the amount which would have been determined under Medicare Principles of Reimbursement, whichever is less.

D1027261

TN 98-8
Supersedes
TN 97-7

Approval Date DEC 1 1998

Effective Date 7/1/98

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE TENNESSEE

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - NURSING FACILITIES

For State Fiscal Year 1996-97, the amount budgeted shall be the projected expenditures for State fiscal year 1995-96 plus 7 percent.

For State Fiscal Year 1997-98, the budgeted amount for level I and level II care is \$672,040,000. Expenditures will be monitored throughout the year to determine if rate adjustments are necessary to assure that each level of care is spending within the budgeted amount. After analyzing final expenditures for the year, any savings from one level of care will be used to offset short falls from the other level of care. If any funds remain at the end of the year, those dollars will be used to provide additional funding to either level of care to reimburse them the amount that would have been paid had the July 1, 1997 through October 31, 1997 freeze not been implemented.

Effective July 1, 1998, the Commissioner of the Department of Health shall establish a program-wide maximum per-diem payment rate for Medicaid/TennCare nursing facilities providing Level II nursing care. The maximum rate shall be established at such time(s) as deemed desirable by the Commissioner. The maximum per-diem rate shall be set at the 65th percentile cost of participating facilities or beds, which ever is lower, rounded to the nearest one cent. The rate of reimbursement, however, will be adjusted as necessary to assure that spending does not exceed the amount budgeted for each state fiscal year. Savings from one level of care will be used to offset any shortfalls from the other level of care.

2. The maximum per diem payment made to each facility is per diem cost, charges or the maximum program-wide per diem rate, whichever is less.
3. If the resident has no resources to apply toward payment, the payment made by the state will be per diem cost, charges or the maximum program-wide per diem payment rate, whichever is less.
4. If the resident has resources to apply toward payment, the payment made by the state will be per diem costs less the available patient resources, charges less the available patient resources, or the maximum program-wide per diem payment rate less the available patient resources, whichever is less.
5. Supplementary payments from relatives or others are not allowed.
6. The Tennessee Medicaid Program will pay to a provider of level II nursing facility services who furnishes services in accordance with the requirements of this State Plan, the amount determined for services furnished by the provider under the Plan.
7. Effective October 1, 1990, payment rates to providers of level II nursing facility services will take into account the costs to be incurred in meeting the requirements of Section 1919 (b), other than paragraph (3)(f), (c) and (d).

D1016333

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE TENNESSEE

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - NURSING FACILITIES

- 8 For state fiscal periods commencing on or after July 1, 1999, and subject to the availability of sufficient county, state and federal funds based upon an executed intergovernmental transfer agreement and subsequent transfer of funds, qualifying Medicaid level II nursing facilities shall receive a Medicaid nursing facility level II disproportionate share payment (M2DSA) one time each fiscal year.
- (a) To be eligible to receive a (M2DSA) payment, a facility must be:
 - (i) County owned, and
 - (ii) Medicaid Level I and Level II covered days, from the facility's most recently filed Medicaid Level I cost report, must be equal to or greater than 75% of total facility patient days, and
 - (iii) The facility must have more than 200 beds, and
 - (iv) The facility must be the largest provider of Medicaid days in its county.
 - (b) For all facilities participating in the Medicaid Program, the Department of Finance and Administration shall determine a maximum upper payment limit in accordance with 42 CFR ~~447.272(a)~~.
 - (c) Subject to the availability of funds the Department of Finance and Administration shall establish a pool of funds from which a disproportionate share payment will be made to eligible nursing facilities as described in section (a) above. The amount of the pool cannot exceed the upper payment limit described in section (b) above.
 - (d) Using the most recently filed cost report for each facility described in section (a) above, the Department of Finance and Administration shall determine each facility's (M2DSA) percentage by dividing the facility's Medicaid Level II patient days by the total number of Medicaid Level II patient days for all facilities described in section (a) above.
 - (e) Each eligible facility's (M2DSA) shall be determined by multiplying its (M2DSA) percentage by the total disproportionate share pool described in section (c) above.
 - (f) The Department of Finance and Administration shall verify that the Medicaid Level II patient days used to determine each facility's (M2DSA) percentage in section (d) above are as accurate as possible at the time of the calculation.
 - (g) Should subsequent review of the Medicaid Level II patient days included in the calculation described in section (d) above determine that inaccurate counts were used, the Department of Finance and Administration shall make a correcting adjustment on each facility's next (M2DSA) payment.

- F. Cost Report Validation - Cost reports submitted in accordance with this Plan shall be desk reviewed within six months after their submission to the Medicaid intermediary. When a desk review indicates that a field review is necessary, the cost report will be designated for field audit. A field post audit of the financial and statistical records of each participating provider will be performed over a three-year period beginning January 1, 1977. During this period, no less than one third of the participating facilities are to be audited each year. Thereafter, on-site audits of the financial and statistical records will be performed each year in at least 15% of the

D1049259

TN No. 99-8
Supersedes
TN No. 90-4

JUL 03 2000
Approval Date
DEEMED APPROVED

Effective 10-1-99

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE TENNESSEE

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - NURSING FACILITIES

participating facilities. At least 5% of these shall be selected on a random sample basis and the remainder shall be selected on the basis of the desk review or other exception criteria.

The audit program shall meet generally accepted auditing standards. This program shall provide procedures to certify the accuracy of the financial and statistical data on the cost report and to insure that only those expense items that this Plan has specified as allowable costs have been included by the provider.

The audit report shall meet generally accepted auditing standards and shall declare the auditor's opinion as to whether, in all material respects, the cost report submitted by the provider is fairly stated. These audit reports shall be retained by the Department of Health for no less than five years. Overpayments to nursing facilities will be accounted for on form HCFA-64 no later than 60 days following the date of discovery.

- G. Public Review and Comment - Interested members of the public will be granted an opportunity of at least thirty (30) days to review and comment on the proposed methods and standards of payment before they become effective.

II. Nursing Facilities Providing Level I Care

- A. Reimbursement Principles - Effective August 16, 1980, reimbursement for Nursing Facility services (Level I care) shall be on a reasonable cost-related basis. Participation in the program shall be limited to those providers of service who agree by contract to accept as payment in full the amounts paid in accordance with the cost rates determined by the methods described herein. Cost rates shall be determined prospectively on a facility by facility basis. Such rates shall consist of prior year allowable cost, a cost increase factor, a return on equity, an incentive factor for cost containment, and any allowable cost as referred to in Section II.B. of this attachment as may be required by the Commissioner of the Department of Health. The first cost report shall be the providers' first fiscal period ending after July 1, 1976 and shall run no longer than twelve months. OBRA 1987 pass through cost items allowed will be paid over and above the per diem in the fiscal year July 1, 1990 through June 30, 1991 and in the fiscal year July 1, 1991 through June 30, 1992. The annual nursing home tax, passed through as an allowable cost item for nursing facilities for the periods of July 1, 1992 through June 30, 1993; July 1, 1993 through June 30, 1994; July 1, 1994 through June 30, 1995; July 1, 1995 through June 30, 1996; July 1, 1996 through June 30, 1997; July 1, 1997 through June 30, 1998 and July 1, 1998 through June 30, 1999 is being extended for the period July 1, 1999 through June 30, 2000 and July 1, 2000 through June 30, 2001 and will be excluded for purposes of computing the inflation allowance and cost containment incentive, and will not be subject to the maximum per diem rate. With certain exceptions, Medicare standards and principles of reimbursement shall be used. These exceptions are noted below:

D1045173

SEP 30 1988

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE TENNESSEE

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - SKILLED NURSING AND INTERMEDIATE CARE FACILITIES

1. An optional allowance for depreciation based on a percentage of operating costs is not allowed.
2. Accelerated methods of depreciation cannot be used for assets acquired after June 30, 1973, without written approval from the Comptroller's Office. Such approval will be granted only if the provider can demonstrate to the satisfaction of the Comptroller's Office that cash flow from depreciation on the total assets of the institution used to provide patient care services during the reporting period, include straight-line depreciation on the assets in question, is insufficient to supply the funds required to meet the reasonable principle amortization schedules on the capital debts related to the provider's total depreciable assets used to provide patient care services.
3. Expenses related to disallowed capital expenditures, such as depreciation, interest on borrowed funds, the return on equity capital in the case of proprietary providers, and repairs are not allowable costs. Disallowed capital expenditures are those that have not been approved by the Tennessee Health Facilities Commission or its successor agency in accordance with State law.
4. Bad debts, charity, and courtesy allowances are not allowable expenses.
5. The Medicare Routine Nursing Salary Differential does not apply.
6. The reimbursement of excessive costs arising from low occupancy is not consistent with the intent of the Intermediate Care Program. Accordingly, the calculated rate, before application of any ceilings, shall be recalculated according to the following scale:

AT-88-14
Effective 7/1/88

TN No. 88-14
SUPERSEDES
TN No. 80-8
DATE/APPROVED 12/28/88
DATE/EFFECTIVE 7/1/88

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE TENNESSEEMETHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - SKILLED NURSING AND INTERMEDIATE CARE FACILITIES

<u>% Occupancy of ICF Unit</u>	<u>Percent of Calculated Rate</u>
80% and above	100%
75% to 80%	95%
70% to 75%	90%
65% to 70%	85%
60% to 65%	80%
55% to 60%	75%
50% to 55%	70%
Below 50%	60%

In addition, no incentive provision will apply to providers with occupancies below 80%.

7. Assets not relating to patient care, uncollectible accounts and notes receivable, and advances or loans to owners are to be excluded from equity capital.
8. The payment rate for program services shall not exceed the facility's customary charges to the general public for such services.
- 9.a. On a new lease effective June 30, 1976, and renewal of such lease, the lesser of rent on real property and equipment or the amount of the lessor's depreciation, interest, other allowable costs, and return on lessor's equity capital, in accordance with principle 3 of this section, will be considered on an item by item basis, as an allowable cost. Renewals of a lease negotiated before July 1, 1976, at the same rental amount or at an amount fixed or determinable according to conditions provided for in the original lease will not be considered as a new lease according to this provision. This provision does not apply to the rental of equipment for periods of less than one year.

AT-88-18
Effective 9/1/88

D4028264

TN No. 88-18

SUPERSEDES

TN No. 80-8DATE/APPROVED 8/29/89DATE/EFFECTIVE 9/1/88

JUN 14 1989

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE TENNESSEEMETHODS AND STANDARDS FOR ESTABLISHING PAYMENT
RATES - SKILLED NURSING AND INTERMEDIATE CARE FACILITIES

9.b. In regard to revaluation and recovery of depreciation on assets sold or transferred at a gain, the Tennessee Medicaid program will allow the lesser of (a) the asset's purchase price at the time of sale, (b) the fair market value at the time of sale, or (c) for bona fide sales occurring on or after September 1, 1988, the seller's initial cost trended forward based on the lower of 50% of the CPI or 50% of the Dodge Construction Multiplier (measured from the seller's date of acquisition) and then reduced by the seller's accumulated depreciation to the time of sale. The Dodge Multiplier shall be the Dodge Historical Index published by Dodge Cost Systems of the McGraw-Hill Information Systems Company. The actual multiplier to be used shall be the average of the published multipliers for the cities of Nashville, Chattanooga, Knoxville, and Memphis. After 1976 when multipliers are published for March and September, the March multiplier shall be used. Furthermore, for sales on and after September 1, 1988, the combination of owner's equity (for proprietary providers) and the principal amount to be allowed for interest expense cannot exceed the revalued basis and/or actual interest expense as defined in this subsection (return on equity is always applied first); and the useful life of the assets acquired cannot be less than the remaining useful life of the seller prior to the sale. The provider of record (buyer) is responsible for providing the necessary initial information to the Comptroller of the Treasury in order to make the necessary revaluation. If appropriate information is not provided, the Comptroller of the Treasury will use the best information available to compute the revaluation. In subsequent years' cost reports, the provider is responsible for maintaining and submitting records of assets (and associated debt) that are subject to the revaluation limitations. Assets and debt acquired subsequent to and not related to the change of ownership are not subject to revaluation limitations and must be separately disclosed and reported. Commingling of information may result in depreciation and interest reductions on assets not subject to revaluation limits. In no case can interest expense (on assets subject to revaluation limits) exceed actual interest expense incurred by the new owner.

For all subsequent sales, the original basis for computing the revalued basis to the new owner shall be the revalued basis of the seller unless the sales price is lower than such revalued basis.

10. For reimbursement purposes, a reasonable allowance of compensation for services of an owner or persons related to an owner is an allowable cost, provided the services are performed in a necessary function. The requirement that the function be necessary means that had the owner not rendered the services, the institution would have had to employ another

TN No. 88-18

SUPERSEDES

TN No. 80-8DATE/APPROVED 8/29/89 AT-88-18
Effective 9/1/88
DATE/EFFECTIVE 9/1/88